

Huron Academy
Sterling Heights, Michigan

Audited Financial Statements

June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Huron Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Academy, as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements listed in the table of contents. These financial statements are the responsibility of Huron Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Huron Academy as of June 30, 2005, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Huron Academy's basic financial statements. The introductory section, combining and individual non major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005 on our consideration of Huron Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Croskey, Lanni & Company, P.C.

July 29, 2005
Rochester, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Huron Academy's, "HRA", annual financial report presents our discussion and analysis of the school's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the school's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

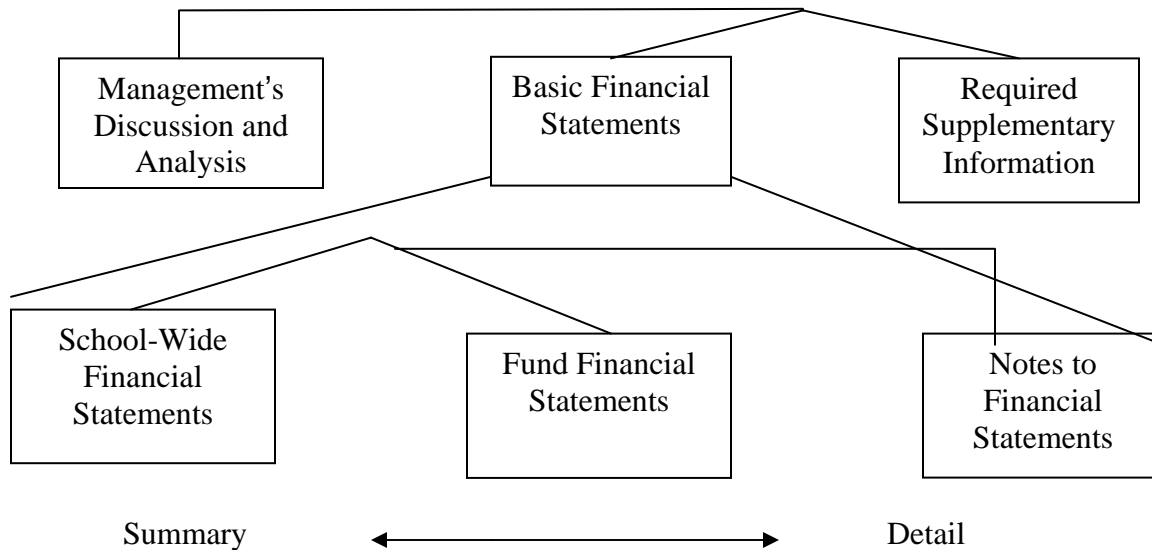
- ❖ The school's financial status remains stable, despite a state aid reduction for the second year in a row.
 - The total cost of basic programs was \$1,353,079.
- ❖ Revenues were at \$3,644,243 while expenses were \$3,174,854.
 - Blended enrollment used for state aid purposes was 478.04 compared to 479.28 last year.
- ❖ The school reduced its outstanding long-term debt, which consists primarily of bond issuances and equipment leases \$148,147.
- ❖ The school has a positive fund balance in the General Fund of \$1,148,998.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements which include two kinds of statements that present different views of the school:

- The first two statements are school wide financial statements that provide both short-term and long-term information about the school's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the school, reporting the schools operations in more detail.
- The governmental funds statements tell how basic services like regular and special education were financed.
- Fiduciary funds statements provide information about the financial relationships in which the school acts solely as a trustee or agent for the benefit of others. These consist of student activity funds held by the school on behalf of the student group.

Figure A-1
Organization of HRA'S Annual Financial Report



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the school's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2
Major Features of School-Wide and Fund Financial Statements

Fund Financial Statements			
	School-Wide Statements	Government Funds	Fiduciary Funds
Scope	Entire school (except fiduciary funds)	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the school administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	*Statement of net assets *Statement of activities	*Balance sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of fiduciary net assets *Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the school's financial statements, including the portion of the schools activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

SCHOOL-WIDE STATEMENTS

The school-wide statements report information about the school as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the school's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school wide statements report the school's net assets and how they have changed. Net assets – the difference between the school's assets and liabilities – are one way to measure the school's financial health or position.

- ❖ Over time, increases or decreases in the school's assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- ❖ To assess the overall health of the school, you need to consider additional non-financial factors such as changes in the school's enrollment and the condition of school buildings and other facilities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the school's funds, focusing on its most significant or "major" funds – not the school as a whole. Funds are accounting devices the school uses to keep track of specific sources of funding and spending on particular programs:

- ❖ *Governmental activities* – Most of the school's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.
- ❖ The school establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues.

The school has two kinds of funds:

- ❖ *Governmental funds* – Most of the school's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the school's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information with governmental funds statements that explain the relationship (or differences) between them.
- ❖ *Fiduciary funds* – The school is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the school-wide financial statements because the school cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

The comparison of current year to prior year financial information is on the following pages. See tables A-3, A-4, and A-5.

The school's financial position is the product of many factors. A new asset depreciation schedule was implemented this past year due to the new regulations required by GASB 34. Due to the decrease in state aid for the third straight year, new asset purchases were kept to a minimum.

School governmental

The stability of the school's finances is a result of the following measures:

- ❖ A strong fund balance has been accumulated over the years
- ❖ HRA consistently curtails excessive spending

General Fund Budgetary Analysis

Over the course of the year, the school reviewed the annual operating budget several times and amended the budget as necessary.

Financial Outlook

Huron Academy's financial forecast is optimistic heading into the 2005/2006 school year.

- ❖ The State of Michigan anticipates a \$175 increase in per pupil allowance.

Appendix A
Table A-3
HRA's Net Assets

	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 1,717,306	\$ 1,675,203
Capital assets	<u>2,577,833</u>	<u>2,520,489</u>
Total assets	<u>4,295,139</u>	<u>4,195,692</u>
Long-term debt outstanding	2,932,388	2,645,000
Other liabilities	<u>267,269</u>	<u>226,104</u>
Total liabilities	3,199,657	2,871,104
Net assets:		
Restricted	449,837	469,700
Unrestricted	<u>645,645</u>	<u>854,888</u>
Total net assets	<u><u>\$ 1,095,482</u></u>	<u><u>\$ 1,324,588</u></u>

Table A-4
Changes in HRA's Net Assets

	<u>2004</u>	<u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 13,128	\$ 76,464
Federal and state operating grants	157,759	308,601
General revenues:		
State aid - unrestricted	3,289,640	3,279,358
Miscellaneous	<u>115,393</u>	<u>37,319</u>
Total revenues	<u>3,575,920</u>	<u>3,701,742</u>
Expenses:		
Instruction	1,363,726	1,353,079
Support services	1,609,424	1,817,991
Interest on long-term debt	242,623	193,222
Depreciation	<u>103,669</u>	<u>108,344</u>
Total expenses	<u>3,319,442</u>	<u>3,472,636</u>
Change in net assets	<u><u>\$ 256,478</u></u>	<u><u>\$ 229,106</u></u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2005, the school had invested \$ 2,902,004 in capital assets, including computers and software. This amount represents a net change of \$51,000 from last year. (More detailed information about capital assets can be found in Note 7 to the financial statements.)

Building	\$ 2,560,321
Equipment	<u>341,683</u>
Subtotal	2,902,004
Accumulated depreciation	<u>(381,515)</u>
Net book value of assets	<u><u>\$ 2,520,489</u></u>

The school's fiscal year 2006 budget anticipates additions of \$28,500 in capital outlays.

Long-term Debt

At year end the school had debt of \$2,784,241 consisting of bond issuances and a capital equipment lease.

- The school continued to pay down its debt, retiring \$148,147 of the amounts due on the above mentioned bond issuances and retired two of the three equipment leases in place.

FACTORS BEARING ON THE SCHOOL'S FUTURE

- Continuation of enrollment stability
- State aid foundation grant stabilization
- Strategic Planning process to begin in September 2005 to further shape school's mission and goals for future.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students, parents and creditors with a general overview of the school's finances and to demonstrate the school's accountability for the money it receives. If you have questions about this report or need additional information, contact the school's office at:

Huron Academy, 11401 Metropolitan Parkway, Sterling Heights, MI 48312

HURON ACADEMY

STATEMENT OF NET ASSETS JUNE 30, 2005

ASSETS

Current Assets

Cash and cash equivalents	\$ 503,254
Investments	469,700
Accounts receivable	8,866
Due from other governmental units	651,316
Prepaid expenses	42,067
	<hr/>
Total current assets	1,675,203

Facilities, Furniture and Equipment

At cost less accumulated depreciation of \$381,515	2,520,489
	<hr/>
Total assets	<u>\$ 4,195,692</u>

LIABILITIES AND NET ASSETS

Current Liabilities

Other accrued expenses	\$ 86,185
Long-term debt - current portion	139,241
Deferred revenue	678
	<hr/>
Total current liabilities	226,104

Long-Term Debt - Long-Term Portion	2,645,000
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Net Assets

Restricted for debt service	469,700
Unrestricted	854,888
	<hr/>
Total net assets	1,324,588
	<hr/>
Total liabilities and net assets	<u>\$ 4,195,692</u>

See accompanying notes to financial statements

HURON ACADEMY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Government Type Activities
Elementary school	\$ 1,353,079	\$ -	\$ 16,725	\$ (1,336,354)
Special education	220,057	-	180,743	(39,314)
Compensatory education	65,188	-	39,286	(25,902)
Support services	124,766	-	37,811	(86,955)
General administration	52,140	-	-	(52,140)
Executive administration	434,573	-	-	(434,573)
Building administration	368,962	-	-	(368,962)
Lunch program	71,029	20,993	34,036	(16,000)
Business support services	190,940	-	-	(190,940)
Operations and maintenance	236,718	-	-	(236,718)
Custody and care of children	53,618	53,001	-	(617)
Depreciation	108,344	-	-	(108,344)
Interest	193,222	2,470	-	(190,752)
Total primary government	<u>\$ 3,472,636</u>	<u>\$ 76,464</u>	<u>\$ 308,601</u>	<u>(3,087,571)</u>
General purpose revenues:				
State school aid - unrestricted				3,279,358
Fundraiser income				30,000
Rental income				6,000
Miscellaneous				<u>1,319</u>
Total general purpose revenues				<u>3,316,677</u>
Excess of revenues over expenses				229,106
Net assets - July 1, 2004				<u>1,095,482</u>
Net assets - June 30, 2005				<u>\$ 1,324,588</u>

See accompanying notes to financial statements

HURON ACADEMY

COMBINED BALANCE SHEET - ALL FUND TYPES JUNE 30, 2005

ASSETS

	<u>General</u>	<u>Debt Service</u>
Cash and cash equivalents	\$ 503,254	\$ -
Investments	-	469,700
Accounts receivable	8,866	-
Due from other governmental units	651,316	-
Prepaid expenses	42,067	-
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,205,503</u>	<u>\$ 469,700</u>

LIABILITIES AND FUND BALANCES

Liabilities

Other accrued expenses	\$ 55,827	\$ -
Deferred revenue	678	-
	<u> </u>	<u> </u>
Total liabilities	56,505	-

Fund Balance

Designated for debt service	-	469,700
Unreserved:		
Undesignated	1,148,998	-
	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,205,503</u>	<u>\$ 469,700</u>

See accompanying notes to financial statements

HURON ACADEMY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES JUNE 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total Governmental Fund Balances	1,618,698
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$2,902,004 and the accumulated depreciation is \$381,515	2,520,489
Interest is not payable until due in governmental activities and, therefore, is not recorded in the funds.	(30,358)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,784,241)</u>
Net Assets of Governmental Activities	<u><u>\$ 1,324,588</u></u>

See accompanying notes to financial statements

HURON ACADEMY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Revenues			
Local sources	\$ 129,530	\$ 2,470	\$ 20,993
State sources	3,384,091	-	560
Federal sources	130,622	-	33,476
Total governmental fund revenues	3,644,243	2,470	55,029
Expenditures			
Elementary school	1,353,079	-	-
Special education	220,057	-	-
Compensatory education	65,188	-	-
Support services	124,766	-	-
General administration	52,140	-	-
Executive administration	434,573	-	-
Building administration	368,962	-	-
Lunch program	-	-	71,029
Business support services	190,940	-	-
Operations and maintenance	236,718	-	-
Custody and care of children	53,618	-	-
Capital outlay	51,000	-	-
Debt principal and interest	23,813	320,481	-
Total governmental fund expenditures	3,174,854	320,481	71,029
Excess (deficiency) of revenues over expenditures	469,389	(318,011)	(16,000)
Other financing sources (uses)			
Operating transfers in	-	337,874	16,000
Operating transfers out	(353,874)	-	-
Total other financing sources (uses)	(353,874)	337,874	16,000
Excess of revenues and other financing sources over expenditures and other uses	115,515	19,863	-
Fund balance - July 1, 2004	1,033,483	449,837	-
Fund balance - June 30, 2005	<u>\$ 1,148,998</u>	<u>\$ 469,700</u>	<u>\$ -</u>

See accompanying notes to financial statements

HURON ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net Change in Fund Balances - Total Governmental Funds	\$	135,378
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 51,000	
Depreciation expense	<u>(108,344)</u>	(57,344)

The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general loan obligations is as follows:

Interest expense	\$ 2,925	
Repayment of loan principal	<u>148,147</u>	<u>151,072</u>

Change in Net Assets of Governmental Activities	\$	<u>229,106</u>
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See accompanying notes to financial statements

HURON ACADEMY

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2005**

ASSETS

	<u>Agency</u>
Cash and cash equivalents	<u>\$ 7,323</u>
Total assets	<u><u>\$ 7,323</u></u>

LIABILITIES

Due to student groups	<u>\$ 7,323</u>
Total liabilities	<u><u>\$ 7,323</u></u>

See accompanying notes to financial statements

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - Summary of Significant Accounting Policies

The accounting policies of Huron Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

Reporting Entity

Huron Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, in June 1999, and began operation in July 1999.

In August 1999, the Academy entered into a five-year contract with Ferris State University’s Board of Trustees to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The University’s Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays Ferris State University’s Board of Trustees three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2005 were approximately \$101,500.

In July 1999, the Academy entered into a five-year agreement with Imagine Schools, Inc., “Imagine”. Under the terms of this agreement, Imagine provides a variety of services including management curriculums, educational programs and teacher training. The Academy is obligated to pay Imagine ten percent of its applicable revenues from federal, state, county and local governments. The total paid for these services amounted to approximately \$333,000 for the year ended June 30, 2005.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operation of financial relationships with the public school academy. Based on application of criteria, the entity does not contain component units.

Fund Financial Statements

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The Academy has designated all of its funds as major.

Basis of Presentation - Fund Accounting

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined basic financial statements in this report, into governmental fund types as follows:

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - Summary of Significant Accounting Policies - Continued

Governmental Funds

A governmental fund is a fund through which most academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

General Fund - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

School Service Fund - The school service fund is used to account for the food service program operations. The school service fund is a subsidiary operation and is an obligation of the general fund. Therefore any shortfall in the school service fund will be covered by an operating transfer from the general fund. The school service fund does not maintain its own assets and liabilities; accordingly, no balance sheet is presented for this fund.

Debt Service Fund - The debt service fund is used to record certain revenue and the payment of interest, principal and other expenditures on long-term debt.

Fiduciary Fund - The fiduciary fund is used to account for assets held by the Academy in a trustee capacity or as an agent. The agency fund is custodial in nature and does not involve the measurement of results of operations.

Activity (Agency) Fund - The Academy presently maintains an activity fund to record the transactions of a student group for school and school-related purposes. The fund is segregated and held in trust for the students.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Other revenue is recorded when received.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - Summary of Significant Accounting Policies - Continued

Government Wide Financial Statements

The government-wide financial statements (i.e. the statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between expenses, and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Cash and Cash Equivalents

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition.

Receivables

Receivables at June 30, 2005 consist of state school aid due from the State of Michigan. All receivables are expected to be fully collected in July and August of 2005 and are considered current for the purposes of these basic financial statements.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - Summary of Significant Accounting Policies - Continued

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met and recorded as deferred revenue.

Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2005, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 - 50 years
Furniture and equipment	3 - 15 years
Computers and software	3 - 10 years

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 - Summary of Significant Accounting Policies - Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance of amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - Stewardship, Compliance and Accountability

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. The Academy originally adopted only a general fund budget, which includes traditional debt service fund revenues and expenditures and school service fund revenue and expenditures. For the financial statement presentation these amounts are shown as a separate debt service and school service fund. During the year ended June 30, 2005 the budget was amended in a legally permissible manner.

The budget statement (budgetary comparison schedule - governmental funds) is presented on the combined statement of revenue, expenditures, and fund balances. Budget overruns are as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund		
General administration	\$ 40,200	\$ 52,140
Executive administration	421,200	434,573
School Service Fund		
Lunch program	58,326	71,029

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 3 - Deposits and Investments

The Academy maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000 per deposit account. The Academy's uninsured and uncollateralized cash balance as of June 30, 2005 amounted to \$664,590. The Academy's investments at June 30, 2005 were comprised of fund shares that had a carrying amount and market value of \$469,700. These investments are held by a trustee for debt service on the Certificates of Participation as described in Note 9. The investments are in mutual funds that invest solely in US Treasury obligations.

The Academy's investments are required to be categorized to give an indication of the level of risk assumed by the Academy at June 30, 2005. All of the investments are classified as Category 1 which includes investments that are insured or registered or for which the securities are held by the Academy or its agent in the Academy's name.

NOTE 4 - Due From Other Governmental Units

Amounts due from other governmental units at year end consists of the following:

State aid	\$ 599,627
Special education	9,061
At risk	6,877
Federal grants	<u>35,751</u>
Total	<u><u>\$ 651,316</u></u>

NOTE 5 - Prepaid Expenses

Amounts prepaid at year end consist of the following:

Rent	\$ 13,750
Insurance	6,025
Payroll	15,802
Miscellaneous	<u>6,490</u>
Total	<u><u>\$ 42,067</u></u>

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 7 - Accrued Expenses

Amounts accrued at June 30, 2005 consist of the following:

	<u>Net Assets</u>	<u>Funds</u>
Oversight fees	\$ 18,723	\$ 18,723
Purchased services - payroll and benefits	37,104	37,104
Interest	<u>30,358</u>	<u>-</u>
Total	<u>\$ 86,185</u>	<u>\$ 55,827</u>

NOTE 8 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Balance June 30, 2005</u>
Building and leasehold improvements	\$ 2,560,321	\$ -	\$ 2,560,321
Furniture and equipment	262,080	51,000	313,080
Computer equipment	<u>28,603</u>	<u>-</u>	<u>28,603</u>
Subtotal	2,851,004	51,000	2,902,004
Accumulated depreciation	<u>(273,171)</u>	<u>(108,344)</u>	<u>(381,515)</u>
Net book value of assets	<u>\$ 2,577,833</u>	<u>\$ (57,344)</u>	<u>\$ 2,520,489</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 9 - Long-Term Obligation Payable

The following is a summary of long-term obligations for the Academy for the year ended June 30, 2005:

	Capital Lease 1	Capital Lease 3	Capital Lease 4	Certificates of Participation	Total
Balance - July 1, 2004	\$ 6,609	\$ 4,778	\$ 16,001	\$ 2,905,000	\$ 2,932,388
Additions	-	-	-	-	-
Subtotal	6,609	4,778	16,001	2,905,000	2,932,388
Retirement and payments	(6,609)	(4,778)	(11,760)	(125,000)	(148,147)
Balance - June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,241</u>	<u>\$ 2,780,000</u>	<u>\$ 2,784,241</u>
Due within one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,241</u>	<u>\$ 135,000</u>	<u>\$ 139,241</u>

The Academy has issued Certificates of Participation bearing interest at an average rate of 6.88 % through the year ended June 30, 2017. The obligations require semi-annual interest payments due on November 1st and May 1st and an annual payment of principal due on November 1st beginning in 2004. The certificates are collateralized by a mortgage on the Academy's facility as well as a pledge for 20% of State School Aid payments and funds held in trust for debt service.

Following are maturities of long-term obligations principal and interest for each of the next five years and in total:

	Principal	Interest
2006	\$ 139,241	\$ 186,812
2007	150,000	177,088
2008	160,000	166,625
2009	170,000	155,488
2010	185,000	143,506
2011 - 2015	1,115,000	506,181
2016 - 2017	865,000	71,925

The Academy is the lessee of various classroom and office equipment held under a capital lease agreement. The lease is collateralized by the equipment, bears interest at 11.9% and expires during the year ended June 30, 2006.

2006	\$ 4,347
Less amount representing interest	<u>106</u>
Present value of future minimum lease payments	<u>\$ 4,241</u>

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 10 - Operating Lease

The Academy has entered into two operating lease agreements with an unrelated third party for building and land. The Academy is responsible for all costs and expenses related to the property. The Academy is required to maintain adequate property and liability insurance coverage as well as maintain the property in like condition as at the inception of the lease term. The rental payments for the building lease, which began in September 2004, are \$8,750 for months 1-11, and \$35,750 for the twelfth month for the first 3 years, and \$11,000 a month for years 4 and 5. The land rent payments are \$5,000 per month for the first year, \$5,500 for years 2005 through 2010, \$6,050 for years 2010 through 2015, \$6,655 for years 2015 through 2020, and \$7,321 for years 2020-2026.

The approximate amount of lease obligations coming due during the next five years and in total are as follows:

	<u>Building</u>	<u>Land</u>
2006	\$ 167,750	\$ 65,000
2007	167,750	66,000
2008	132,000	66,000
2009	132,000	66,000
2010	22,000	66,000
2011 - 2015	-	361,900
2016 - 2020	-	398,090
2021 - 2025	-	437,899
2026	-	14,641

Total rent expense included in the determination of net earnings for the year ended June 30, 2005 amounted to \$160,750.

NOTE 11 - Retirement Plan

All leased employees of the Academy are eligible to participate in a retirement plan established by Imagine which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. The Academy, under this plan, will contribute 4% of salaries regardless of the amount the employee contributes. The Academy will additionally match up to 4% of employee contributed funds. Eligible employees may contribute up to 15% of their salaries under the terms of this plan. Total Academy contributions to the plan amounted to \$85,400 for the year ended June 30, 2005.

HURON ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 12 - Interfund Transfers

During the normal course of the school year the Academy transferred amounts between its three major funds as follows:

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Transfers In	\$ -	\$ 337,874	\$ 16,000
Transfers Out	353,874	-	-

As stipulated by the Academy's Certificates of Participation as described in Note 9, the Academy must transfer 20% of its state aid to a trustee. The trustee retains the required portion needed for debt service and returns the remainder to the Academy. This accounts for the major activity in the Academy's interfund transfer account.

NOTE 13 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 14 - Subsequent Events

As of July 1, 2005, the Academy and Imagine Schools, Inc. have agreed to terminate their agreement. All financial obligations under this agreement have been fully satisfied. The Academy has since fully affiliated itself with another non-related third party for accounting, human resources and business management services.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

**To the Board of Directors
of Huron Academy**

We have audited the accompanying financial statements of Huron Academy for the year ended June 30, 2005. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not required as part of the financial statements of Huron Academy. This information has been subjected to the procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Croskey, Lanni & Company, P.C.

July 29, 2005
Rochester, Michigan

HURON ACADEMY

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General		
	Original Budget	Final Budget	Actual
Revenues			
Local sources	\$ 63,044	\$ 99,044	\$ 129,530
State sources	3,397,464	3,384,176	3,384,091
Federal sources	104,284	133,651	130,622
Total governmental fund revenues	3,564,792	3,616,871	3,644,243
Expenditures			
Elementary school	1,387,275	1,417,656	1,353,079
Special education	198,110	226,735	220,057
Compensatory education	33,813	65,188	65,188
Support services	128,607	128,807	124,766
General administration	19,610	40,200	52,140
Executive administration	476,894	421,200	434,573
Building administration	378,634	370,157	368,962
Lunch program	-	-	-
Business support services	244,500	194,825	190,940
Operations and maintenance	220,382	263,092	236,718
Custody and care of children	58,674	60,461	53,618
Capital outlay	104,750	63,500	51,000
Debt principal and interest	24,755	24,963	23,813
Total governmental fund expenditures	3,276,004	3,276,784	3,174,854
Excess (deficiency) of revenues over expenditures	288,788	340,087	469,389
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfers out	(350,171)	(369,214)	(353,874)
Total other financing sources (uses)	(350,171)	(369,214)	(353,874)
Excess of revenues and other financing sources over expenditures and other uses	(61,383)	(29,127)	115,515
Fund balance - July 1, 2004	1,033,483	1,033,483	1,033,483
Fund balance - June 30, 2005	\$ 972,100	\$ 1,004,356	\$ 1,148,998

See accompanying notes to financial statements

Debt Service			School Service		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
\$ -	\$ -	\$ 2,470	\$ 75,000	\$ 66,444	\$ 20,993
-	-	-	-	-	560
-	-	-	20,924	13,563	33,476
-	-	2,470	95,924	80,007	55,029
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	63,529	58,326	71,029
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
320,592	340,904	320,481	-	-	-
320,592	340,904	320,481	63,529	58,326	71,029
(320,592)	(340,904)	(318,011)	32,395	21,681	(16,000)
320,592	340,904	337,874	29,579	28,310	16,000
-	-	-	-	-	-
320,592	340,904	337,874	29,579	28,310	16,000
-	-	19,863	61,974	49,991	-
449,837	449,837	449,837	-	-	-
\$ 449,837	\$ 449,837	\$ 469,700	\$ 61,974	\$ 49,991	\$ -

HURON ACADEMY

SCHEDULE OF REVENUES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Local Sources			
Custody and care of children	\$ 53,001	\$ -	\$ -
FSU grant	16,725	-	-
Rental income	6,000	-	-
Food service	-	-	20,993
Special education	22,485	-	-
Interest income	-	2,470	-
Fundraiser	30,000	-	-
Miscellaneous	1,319	-	-
	<hr/>	<hr/>	<hr/>
Total local sources	129,530	2,470	20,993
State Sources			
State aid	3,279,358	-	-
At risk	37,811	-	-
Food service	-	-	560
Special education	66,922	-	-
	<hr/>	<hr/>	<hr/>
Total state sources	3,384,091	-	560
Federal Sources			
Special education	91,336	-	-
National lunch program	-	-	19,585
Federal commodities	-	-	13,891
Pre-school incentive	1,398	-	-
Building capacity	1,948	-	-
Homeland security grant	1,316	-	-
Title I	27,187	-	-
Title II-A	6,521	-	-
Title II-D	620	-	-
Title V	296	-	-
	<hr/>	<hr/>	<hr/>
Total federal sources	130,622	-	33,476
	<hr/>	<hr/>	<hr/>
Total governmental fund revenues	<u>\$ 3,644,243</u>	<u>\$ 2,470</u>	<u>\$ 55,029</u>

See independent auditor report on supplemental information

HURON ACADEMY

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Elementary School			
Purchased services - salaries	\$ 1,005,175	\$ -	\$ -
Purchased services - benefits	169,351	-	-
Purchased services - taxes	96,958	-	-
Workshops and conferences	320	-	-
Equipment lease	9,323	-	-
Teaching supplies and other	19,615	-	-
Textbooks	52,268	-	-
Miscellaneous	69	-	-
	<hr/>	<hr/>	<hr/>
Total elementary school	1,353,079	-	-
Special Education			
Purchased services - salaries	165,722	-	-
Purchased services - benefits	39,222	-	-
Purchased services - taxes	15,113	-	-
	<hr/>	<hr/>	<hr/>
Total special education	220,057	-	-
Compensatory Education			
Purchased services - salaries	58,093	-	-
Purchased services - benefits	5,799	-	-
Purchased services - taxes	1,296	-	-
	<hr/>	<hr/>	<hr/>
Total compensatory education	65,188	-	-
Support Services			
Purchased services - salaries	41,142	-	-
Purchased services - benefits	8,168	-	-
Purchased services - taxes	5,836	-	-
Contracted services	56,226	-	-
Materials and supplies	7,326	-	-
Workshops & conferences	6,068	-	-
	<hr/>	<hr/>	<hr/>
Total support services	124,766	-	-
General Administration			
Audit services	13,361	-	-
Legal services	29,351	-	-
Recruiting	6,678	-	-
Miscellaneous	2,750	-	-
	<hr/>	<hr/>	<hr/>
Total general administration	52,140	-	-

See independent auditor report on supplemental information

HURON ACADEMY

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Executive Administration			
FSU oversight fees	101,532	-	-
Management fees	333,041	-	-
	<hr/>	<hr/>	<hr/>
Total executive administration	434,573	-	-
Building Administration			
Purchased services - salaries	248,535	-	-
Purchased services - benefits	38,501	-	-
Purchased services - taxes	23,019	-	-
Subcontracted services	20,500	-	-
Workshops and conferences	4,289	-	-
Materials and supplies	23,953	-	-
Dues and memberships	4,878	-	-
Miscellaneous	5,287	-	-
	<hr/>	<hr/>	<hr/>
Total building administration	368,962	-	-
Lunch Program			
Purchased services - salaries	-	-	19,862
Purchased services - benefits	-	-	1,183
Purchased services - taxes	-	-	1,884
Food cost	-	-	48,100
	<hr/>	<hr/>	<hr/>
Total lunch program	-	-	71,029
Business Support Services			
Rent	160,750	-	-
Liability insurance	24,991	-	-
Bank fees	5,199	-	-
	<hr/>	<hr/>	<hr/>
Total business support services	190,940	-	-

See independent auditor report on supplemental information

HURON ACADEMY

SCHEDULE OF EXPENDITURES - GOVERNMENTAL FUNDS - Continued FOR THE YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service</u>	<u>School Service</u>
Operations and Maintenance			
Purchased services - salaries	83,601	-	-
Purchased services - benefits	16,771	-	-
Purchased services - taxes	7,591	-	-
Utilities	65,243	-	-
Repairs and maintenance	58,286	-	-
Supplies and other	<u>5,226</u>	<u>-</u>	<u>-</u>
Total operations and maintenance	236,718	-	-
Custody and Care of Children			
Purchases services - salaries	46,858	-	-
Purchased services - benefits	1,282	-	-
Purchased services - taxes	4,798	-	-
Miscellaneous	<u>680</u>	<u>-</u>	<u>-</u>
Total custody and care of children	53,618	-	-
Capital Outlay	51,000	-	-
Debt Principal and Interest	<u>23,813</u>	<u>320,481</u>	<u>-</u>
Total governmental fund expenditures	<u><u>\$ 3,174,854</u></u>	<u><u>\$ 320,481</u></u>	<u><u>\$ 71,029</u></u>

See independent auditor report on supplemental information

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

To the Board of Directors
of Huron Academy

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Academy as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated July 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huron Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Compliance

As part of obtaining reasonable assurance about whether Huron Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the board of directors and others within the Academy and is not intended to be and should not be used by anyone other than these specified parties.

Croskey, Lanni & Company, P.C.

July 29, 2005
Rochester, Michigan